



THE CITY OF SAN DIEGO

DATE ISSUED: February 16, 2000 REPORT NO. RA-00-3

ATTENTION: Chair and Members of the Redevelopment Agency
Docket of February 22, 2000

SUBJECT: First Implementation Agreement to the Disposition and Development
Agreement for the International Gateway of the Americas with LandGrant
Development

REFERENCE: Manager's Reports No. RA 98-4, dated May 6, 1998; and RA-97-8 dated,
July 11, 1997

SUMMARY

Issue - Should the Agency authorize the Executive Director, or his designee, to execute the First Implementation Agreement to the Disposition and Development Agreement (DDA) for the International Gateway of the Americas Project with LandGrant Development?

Manager's Recommendation - Authorize the Executive Director, or his designee, to execute the First Implementation Agreement to the DDA for the International Gateway of the Americas Project with LandGrant Development and amend budget accepting \$50,000.

Other Recommendations - None. The San Ysidro Redevelopment Project Area Committee is no longer meeting due to budget limitations.

Fiscal Impact - The First Implementation Agreement to the DDA does not change the amount of subsidy going to the developer. The Agency/City assistance to the project remains at \$747,965 in tax increment and \$1,308,175 in sales tax per year for 30 years. The payments are paid only from revenues generated by the project and calculated on a Parcel by Parcel basis. The increase in retail space and deletion of the movie theaters from Parcel A increases the amount of projected sales tax revenues estimated to the City. Additionally, the Developer has deposited \$50,000, non-refundable, to cover Agency expenses in negotiating the DDA.

Redevelopment Agency

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Economic Development and Community Services

Environmental - The City Council and Redevelopment Agency certified a Mitigated Negative Declaration (MND) for this project with approval of the DDA on May 12, 1998. Additional environmental review will be required under the California Environmental Quality Act (CEQA) before City permits are approved, and if applicable, the National Environmental Policy Act (NEPA).

BACKGROUND

On July 15, 1997, the Redevelopment Agency entered into an Exclusive Negotiating Agreement (ENA) with LandGrant Development to prepare a Disposition and Development Agreement (DDA) for the International Gateway of the Americas Project in the San Ysidro Redevelopment Project Area.


On May 12, 1998, the Redevelopment Agency entered into a Disposition and Development Agreement with LandGrant Development for the International Gateway of the Americas Project. This Agreement provided for LandGrant to build 1.4 million square feet of retail, office and hotel uses on approximately 60 acres of land they controlled through a joint venture partnership, and additional land that the Agency agreed to assist in acquiring adjacent to the old Virginia Avenue commercial Port of Entry. The project also proposed a river pedestrian bridge into Tijuana, Mexico, with associated federal inspection facilities. The project was to have a value of \$192,044,000. The DDA provided for the Agency to assist the development through a land purchase and sale arrangement. In addition, the City was asked to participate by entering into public-use leases for public parking lots, and public works financing agreements to finance the off-site public improvements, both to be paid with sales tax revenues generated from the project.

On September 22, 1998, the cities of San Diego and Tijuana made a joint presentation to the International Bridges and Border Commission for permission to build a river pedestrian bridge connecting Louisiana Avenue and Avenida Revolucion. City representatives flew to Mexico City on November 6, 1998, to exchange information with Mexican federal agencies regarding this project. The City of San Diego followed-up those meetings with a formal application for a Presidential Permit on January 21, 1999. On March 11, 1999, the City of San Diego made a presentation to the United States State Department and other federal agencies in Washington, D.C., supporting this project. On April 27, 1999, in Matamoros, Mexico, the City and LandGrant again presented material to the International Bridges and Border Commission and, on October 25, 1999, LandGrant attended the International Bridges and Border Commission meeting in El Paso, Texas. Results of these meetings, and others, have been both positive and encouraging. City staff and LandGrant expect to be successful in obtaining the authorization to construct the River Pedestrian Bridge over the next two or three International Bridges and Border Commission meetings, which are held every six months.

DISCUSSION

At this time, LandGrant wishes to move forward with a portion of the project ahead of the anticipated International Bridges and Border Commission authorization of the River Pedestrian Bridge. In order for this to occur under the terms of the DDA, the Schedule of Performance, and corresponding sections and attachment, need to be amended, and an equity partner approved. The equity partner, J E R Partners, in conjunction with LandGrant, will provide sufficient capital to acquire the Simons properties, and most of the other privately held parcels which were to be acquired by the Agency, by the end of February and May, respectively. This will allow them to begin processing permits for construction of Parcels B and C by June 2000. The City will still be asked to enter into the parking lot lease agreements (per the original DDA) to facilitate this project, but not the public financing agreement. The Developer will finance the off-site improvements privately. Staff will be bringing the parking lot lease agreement forward to the City Council within the next few months.

Specifically, the First Implementation Agreement would amend the DDA to allow for the following:

- 1) Approve J E R Partners as an equity partner with LandGrant. Section 108 of the DDA requires Redevelopment Agency approval of a change in ownership, management or control of the Developer. J E R Partners is a \$2 billion real estate investment fund based in Washington D.C., with offices in New York City, Los Angeles, Mexico City and Paris, France. They have submitted their financial information to Keyser Marston Associates (KMA), the Agency's financial consultant, who has reviewed it and found them capable of financing this project. A letter from KMA is attached as Attachment 9. 
- 2) Construct Parcels B and C ahead of Parcel A and the River Pedestrian Bridge. The DDA provides that Parcels A, B and C would be built together after approval of the River Pedestrian Bridge. The Developer wishes to begin construction of Parcels B and C immediately, which would provide 325,469 square feet of factory outlet retail space as their First Phase. The Developer would have the right, but not the obligation, to build an additional 50,050 square feet on Parcel B under the DDA. The Developer would also have the right, but not the obligation, to build Parcel A before the River Pedestrian Bridge.
- 3) Change Parcel A uses from American Entertainment to Retail Space. The Developer has not been able to confirm a movie theater complex for the site and the demand for retail space has expanded. This will generate more sales tax revenues (estimated at \$190,000 per year more) to the City, but does not increase the amount of subsidy to the Developer.
- 4) Remove the GSA Parcel and Virginia Avenue from the development. Because of conflicts over the long-term use of the GSA Parcel and Virginia Avenue, the Developer has moved all the uses previously located on these parcels to privately held land to the

west. The Developer would like to maintain the right to negotiate with the Redevelopment Agency for the development of those areas if GSA should make the land available for reuse during the term of the DDA.

- 5) Adjust the Site Plan (Attachment 1 to the DDA) to reflect the deletion of Virginia Avenue and the GSA Parcel and other minor adjustments to the alignment of the Parcels. The removal of the GSA Parcel from the development proposal moves the hotel, office and cultural center west on to privately owned property.
- 6) Amend the Method of Financing (Attachment 2 to the DDA) to reflect the new phasing of construction. No change in the subsidy to the Developer is needed for this First Implementation Agreement. The City and Agency are estimated to receive more annual sales tax and tax increment revenue than previously estimated due to the increase in retail space and increased cost of construction, estimated at \$190,000 and \$64,000 respectively.
- 7) Amend the Schedule of Performance (Attachment 3 to the DDA) to reflect the new development schedule and shift most of the off sites associated with the construction of Parcel A, B and C to Parcels B and C. Briefly, the schedule to begin construction is as follows:

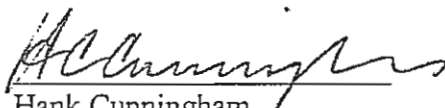
<u>Phase/Parcel</u>	<u>Old DDA</u>	<u>New DDA</u>	<u>Anticipated</u>
Phase 1a Parcel B & C (Retail)	4/99	2/02	2/01
Phase 1b Parcel A (Retail)	4/99	3/03	11/01
Phase 2 Parcel D, E-1, G (Transit Center/Federal inspection facilities/ River Ped. Bridge)	4/00	8/04	8/02
Phase 3 Parcel E-3 or Parcel E-3, E-2, F (Hotel, Office, Parking)	03	9/03	1/03
Phase 4 Parcel E-4 (Cultural Center)	04	9/03	1/03

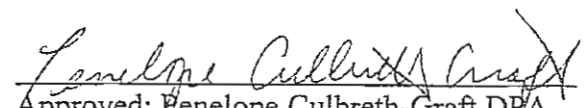
- 8) Amend the Scope of Development (Attachment 4 to the DDA) to reflect the above changes.
- 9) Amend the River Pedestrian Bridge Term Sheet (Attachment 8 to the DDA) to reflect the proposed bridge location at Louisiana Avenue.
- 10) Amend GSA Term Sheet (Attachment 10 to the DDA) by re-titling it Federal Agencies Term Sheet to reflect that the federal facilities are no longer proposed to be located on GSA property. The movement of the River Pedestrian Bridge to Louisiana Avenue also moves the location of the federal inspection facilities to private land and requires minor adjustments to this Attachment to reflect this action.
- 11) Delete Public Works Financing Agreements (Attachment 15 to the DDA). The DDA provided the City using a Mello-Roose type financing vehicle to lower the cost of financing the off-site public improvements. The developer has agreed to finance the off-site public improvements and therefore these agreements are no longer needed.

ALTERNATIVE

Do not authorize the Executive Director to enter into the First Implementation Agreement with LandGrant Development. This alternative would not allow the Developer to proceed with the retail portion ahead of the River Pedestrian Bridge. The development would be delayed pursuant to Section 604 (failure of the governments of the United States and Mexico to act) until (1) the approval of the River Pedestrian Bridge by the International Bridges and Border Commission, at which time the project schedule would resume; or (2) it is determined that the International Bridges and Border Commission will not approve the River Pedestrian Bridge and the DDA is terminated.

Respectfully submitted,


Hank Cunningham
Deputy Executive Director of
Redevelopment


Approved: Penelope Culbreth-Graft DPA
Assistant Executive Director of
Redevelopment

CUNNINGHAM/PKH

- Attachments:
- 1) First Implementation Agreement
 - 2) Attachment 1, Site Plan
 - 3) Attachment 2, Method of Financing
 - 4) Attachment 3, Schedule of Performance
 - 5) Attachment 4, Scope of Development
 - 6) Attachment 10, Federal Agencies Term Sheet
 - 7) Revised Tables
 - 8) Letter from Keyser Marston Associates (to be added later)

GA1stImpleAgree